PLEASANT HILL REDEVELOPMENT AGENCY

BASIC COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

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PLEASANT HILL REDEVELOPMENT AGENCY

Basic Component Unit Financial Statements
For the Year Ended June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the Redevelopment Agency
of the City of Pleasant Hill

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Pleasant Hill, a component unit of the City of Pleasant Hill, as of and for the year ended June 30, 2005 as listed in the table of contents. These basic component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 11, 2005 on our consideration of the Agency's internal control structure and on its compliance with laws and regulations.

In our opinion, the basic component unit financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities and each major fund of the Redevelopment Agency of the City of Pleasant Hill at June 30, 2005 for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis is required by the Government Accounting Standards Board, but is not part of the basic component unit financial statements. We have applied certain limited procedures to this information, but we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic component unit financial statements taken as a whole. The supplemental section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Agency. Such information has been subjected to the auditing procedures applied in our audit of the basic component unit financial statements, and in our opinion is fairly stated in all material respects in relation to the basic component unit financial statements taken as a whole.

Maze + Associates

October 11, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

In Fiscal Year 2002-03 the Pleasant Hill Redevelopment Agency ("Agency") implemented the provisions of Government Accounting Standards Board Statement 34, "Basic Financial Statements—and Management's Discussion & Analysis—for State and Local Governments," known as GASB 34. GASB 34 represents a profound and far-reaching change in accounting and reporting for municipalities; it is an effort to make these statements clearer and more understandable to readers.

GASB 34 requires the Agency to provide this discussion and analysis of its financial activities for the fiscal year. Other changes will be described in the financial statements themselves. Please read this document in conjunction with the accompanying Basic Financial Statements.

As a component unit of the City of Pleasant Hill, the Agency's purpose is to eliminate blight in its project areas, all of which are in the City, while ensuring an adequate stock of low and moderate income housing. The Agency has the power to condemn properties for this purpose and to issue debt payable out of the incremental property taxes expected to be realized as a result of its redevelopment activities. The Agency may enter into development agreements with developers and others to further its purposes.

FISCAL 2005 FINANCIAL HIGHLIGHTS

Agency operations were not affected by the declines experienced in the local economy last year. The Agency's primary revenue source, property tax increment, was $3.9 million in fiscal year 2005, an increase of $66,000 over the prior year.

Agency-wide:

- The Agency's total assets were $11.2 million at June 30, 2005.
- Total liabilities were $15.1 million.
- Agency-wide revenues in fiscal 2005 were $5.0 million.
- Agency-wide expenses were $4.9 million, including $1.5 million transfer to Measure C fund for the Buskirk Contra Costa Shopping Center street widening project.

Fund Level:

- Governmental Fund balances were $10.8 million.
- Governmental Fund revenues were $5.0 million.
- Governmental Fund expenditures were $3.9 million.
- Governmental Fund other operating uses were $1.5 million.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This Report is in three parts:

1) Management's Discussion and Analysis (this part),
2) The Basic Financial Statements, which include the Agency-wide and the Fund financial statements, along with the Notes to these financial statements,
3) Budget/Actual Statements for budgeted Capital Projects Funds.

The Basic Financial Statements

The Basic Financial Statements comprise the Agency-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the Agency's financial activities and financial position—long-term and short-term.

The Agency-wide Financial Statements provide a longer-term view of the Agency's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the Agency as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the Agency's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the Agency's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

The Fund Financial Statements report the Agency's operations in more detail than the Agency-wide statements and focus primarily on the short-term activities of the Agency's Major Funds. The Fund Financial Statements measure only current revenues and expenditures, current assets, liabilities and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the Agency and are presented individually, while the activities of any Non-Major Funds would be presented in summary, with subordinate schedules presenting the detail for each of these other funds. The Agency does not have any Non-Major funds. Major Funds are explained below.

The Agency-wide Financial Statements

All of the Agency's basic services are considered to be Governmental activities, including community development, pass through agreements, developer tax sharing reimbursements, and debt service. These services are supported by general Agency revenues such as incremental property taxes, and by specific program revenues such as fees.

Agency-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the Agency as a whole.

Fund Financial Statements

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the Agency-wide financial statements.

The Fund Financial Statements provide detailed information about each of the Agency's most significant funds, called Major Funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-Major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-Major funds. Major Funds present the major activities of the Agency for the year. The Agency's Major Funds may change from year to year as a result of changes in the pattern of Agency's activities.

The Agency has five Major Governmental Funds in 2005. These are the Commons Working Project, Schoolyard Working Project, Low and Moderate Income Housing, TARB Debt Service, and 2002 PHDCFD #1 Debt Service, each of which is discussed in detail below.

FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the Agency as a whole. Tables 1, 2 and 3 focus on the Agency's Governmental Statement of Net Assets and Statement of Activities.

Table 1
Net Assets at June 30, 2005
(in Millions)

	Governmental Activities	
	2005	2004
Cash and investments	$8.3	$8.9
Other assets	2.9	2.8
Total assets	**11.2**	**11.7**
Long-term debt outstanding	15.1	15.6
Other liabilities	0.0	0.1
Total liabilities	**15.1**	**15.7**
Net assets:		
Restricted	7.4	7.4
Unrestricted	(11.3)	(11.4)
Total net assets	**$(3.9)**	**$(4.0)**

The Agency's governmental net assets amounted to ($3.9) million at June 30, 2005. The negative net assets are a result of debt that has been issued by the Agency to finance capital assets and infrastructure maintained by third parties. The Agency's net assets at June 30, 2005 comprised the following:

- Cash and investments comprised $6.8 million of pooled cash and investments available for operations. Substantially all of these amounts were held in short term investments in State of California Local Agency Investment Fund (LAIF), as detailed in Note 3 to the financial statements.

- Trustee accounts of $1.5 million were held in short-term investments in government securities, as detailed in Note 3.

- Interest receivable, prepaid deposits and land held for redevelopment of $.4 million are current assets.

- Long-term notes and loans receivable of $2.5 million consist of $1.4 million of owner-occupied housing rehabilitation loans and a $1.1 million loan to Bridge Housing Corporation, a non-profit affordable housing developer. Note 5 provides more information on these loans.

- Long-term debt of $15.1 million, of which $14.6 million is due in future years and $0.5 million is due currently.

- Restricted net assets totaling $7.4 million, of which $2.2 million may be used only for debt service and $5.2 million may be used only for low and moderate income housing purposes. The restrictions on these funds were placed there by outsiders and cannot be changed by the Agency.

- Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The Agency had ($11.3) million of unrestricted net assets at June 30, 2005. This deficit is a result of debt that has been issued by the Agency to finance capital assets and infrastructure maintained by third parties. The debt service on the bonds is paid from tax increment in the District.

Fiscal Year 2005 Governmental Activities

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Changes in Governmental Net Assets summarized below.

Table 2
Changes in Governmental Net Assets
For the Year Ended June 30
(in Millions)

	Governmental Activities	
	2005	2004
Expenses		
Community Development	$1.9	$1.4
Pass Through Agreements	0.3	0.3
Developer Tax Sharing Reimbursements	0.4	0.3
Interest and fiscal charges	0.8	0.7
Transfers to the City	1.5	
Total Expenses	**4.9**	**2.7**
Revenues		
Incremental property taxes	3.9	3.8
Investment earnings	0.3	0.2
Operating Grants and Contributions	0.8	0.1
Total revenues	**5.0**	**4.1**
Change in net assets	**$0.1**	**$1.4**

As Table 2 above shows, $0.8 million or 16% of the Agency's 2005 Governmental revenue, came from program revenues and $4.2 million or 84% came from general revenues such as taxes and interest.

Program revenues were comprised of operating grants and contributions of $0.8 million, which primarily represented the receipt of residual funds left after the 1993 Residential Mortgage Revenue Bond issue had been called in full by the trustee.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

The reduction in net assets for fiscal year 2005 of $1.3 million was due primarily to $1.5 million being transferred to Measure C fund for the Buskirk Contra Costa Shopping Center street widening project.

Table 3 presents the net (expense) or revenue of each of the Agency's governmental activities, including interest on long-term debt. Net expense is defined as total program cost less the revenues generated by those specific activities.

Table 3
Net Revenue (Expense) of Governmental Activities
For the Year Ended June 30
(in Millions)

	2005	2004
Community Development	$(1.1)	$(1.4)
Pass through agreements	(0.3)	(0.2)
Developer tax sharing reimbursements	(0.4)	(0.3)
Interest and fiscal charges	(0.8)	(0.7)
Totals	**$(2.6)**	**($2.6)**

The Agency's Fund Financial Statements

Table 4 below summarizes Governmental Activity and balances at the fund level:

Table 4
Financial Highlights at the Fund Level at June 30
(in Millions)

	2005	2004
Total assets	$12.2	$12.7
Total liabilities	1.4	1.5
Total fund balances	10.8	11.2
Total revenues	5.0	4.0
Total expenditures	3.9	3.2
Total other financing sources (uses)	(1.5)	0.0

Analyses of Major Governmental Funds

Commons Working Project

Fund balance increased due the receipt of residual funds left over after the 1993 Residential Mortgage Revenue Bond issue had been called in full. This increase was offset by the transfer to the Measure C fund for the Buskirk Contra Costa Shopping Center Street widening project; construction expenditures and payment to the Educational Revenue Augmentation Fund (ERAF).

Schoolyard Working Project

Increased fund balance was due to the receipt of residual funds left over after the 1993 Residential Mortgage Revenue Bond issue and higher interest income. This increase was offset in part by decreased supplemental property taxes and increased project costs and developer tax sharing reimbursements.

Low and Moderate Income Housing

This fund accounts for administering a housing rehabilitation loan program that provides loans of up to $60,000 to low and very low-income homeowners. This year new loans worth $171,400 were completed. The revenue source for this program comes from the 20% of property tax increment that is mandated by the State to be set aside for low and moderate housing programs. Tax increment increased more than expenditures in fiscal 2005, resulting in a higher fund balance at June 30.

TARB Debt Service

This fund accounts for the debt service costs of the 2002 Tax Allocation Refunding Bonds, and is financed by property tax increments. Because tax increments have been rising in recent years, a surplus developed in this fund and was transferred to the Commons Working Project Fund in fiscal 2005, which is allowed in the bond indenture.

2002 PHDCFD #1 Debt Service

This fund accounts for the debt service costs of the 2002 Pleasant Hill Downtown Community Facilities District #1 Refunding Special Tax Bonds, which refinanced the infrastructure costs of the downtown project. Scheduled debt service payments, offset by transfers of tax increment on the Downtown project from the TARB Debt Service Fund, account for the reduction in fund balance at June 30 to the amount held in the Reserve account by the bond trustee.

CAPITAL ASSETS

The Agency owns no capital assets.

DEBT ADMINISTRATION

Each of the Agency's debt issues is discussed in detail in Note 6 to the financial statements. At June 30, 2005 the Agency's debt was comprised of $8.1 million of 2002 Tax Allocation Refunding Bonds and $7.0 million of Refunding Special Tax Bonds.

SPECIAL ASSESSMENT DISTRICT DEBT

The Pleasant Hill Community Facilities District #1 was formed by the City of Pleasant Hill in 1998 to assist the developer of the Pleasant Hill Downtown Project in financing the infrastructure costs of the Downtown project. The 2002 Bonds are secured by special assessments on the real property in the district issuing the debt. In addition, certain tax increment payments due to the developer are remitted directly to the Fiscal Agent for use in paying the 2002 Bonds. Further detail on this district may be found in Note 7 to the financial statements.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the Agency and its major initiatives for the coming year are discussed in detail in the Transmittal Letter to the City of Pleasant Hill's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

These Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Agency's finances. Questions about this Report should be directed to the Finance Department, at 100 Gregory Lane, Pleasant Hill, CA 94523.

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STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities summarize the entire Agency's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Agency's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the Agency's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between Agency funds have been eliminated.

The Statement of Net Assets reports the difference between the Agency's total assets and the Agency's total liabilities, including all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the Agency's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of the Agency in a single column.

The Statement of Activities reports increases and decreases in the Agency's net assets. It is also prepared on the full accrual basis, which means it includes all the Agency's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities differs considerably from those used in the past. It presents the Agency's expenses that are listed by program first. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each program. The Agency's general revenues are then listed and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

These new financial statements along with the fund financial statements and footnotes are called *Basic Component Unit Financial Statements*.

PLEASANT HILL REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
ASSETS	
Cash and investments (Note 3)	
Available for operations	$6,824,793
Trustee accounts	1,519,979
Accounts receivable	
Interest receivable	60,937
Prepaid deposits	235,000
Long term notes and loans receivable (Note 5)	2,484,829
Land held for redevelopment (Note 5C)	95,556
Total Assets	11,221,094
LIABILITIES	
Accounts payable and accrued liabilities	20,937
Deposits	681
Due to City	
Long term debt (Notes 6 & 7):	
Due in one year	500,000
Due in more than one year	14,595,000
Total Liabilities	15,116,618
NET ASSETS (Note 8)	
Restricted for:	
Debt service	2,209,919
Bridge housing operating subsidies	5,206,334
Total Restricted Net Assets	7,416,253
Unrestricted	(11,311,777)
Total Net Assets (Deficit)	($3,895,524)

See accompanying notes to financial statements

PLEASANT HILL REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

		Program Revenues	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Operating Grants & Contributions	Governmental Activities
Governmental Activities:			
Community development	$1,933,086	$833,358	($1,099,728)
Pass through agreements	260,344		(260,344)
Developer tax sharing reimbursements	396,356		(396,356)
Interest and fiscal charges	837,564		(837,564)
Total Governmental Activities	$3,427,350	$833,358	(2,593,992)
General revenues:			
Taxes:			
Incremental property tax			3,873,537
Investment earnings			313,224
Other			1,542
Transfers to the City			(1,500,000)
Total general revenues			2,688,303
Change in Net Assets			94,311
Net Assets (Deficit)-Beginning			(3,989,835)
Net Assets (Deficit)-Ending			($3,895,524)

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

GASB 34 revises the format of the Fund Financial Statements so that only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Account Groups.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the Agency in Fiscal 2004. Individual non-major funds may be found in the Supplemental section.

PLEASANT HILL COMMONS WORKING PROJECT

Accounts for acquiring land and facilities for urban redevelopment within the Pleasant Hill Commons Project Area.

PLEASANT HILL SCHOOL YARD WORKING PROJECT

Accounts for acquiring land and facilities for urban redevelopment within the Pleasant Hill Schoolyard Project Area.

LOW AND MODERATE INCOME HOUSING

Accounts for the twenty percent housing set-aside from the tax increment proceeds.

TARB DEBT SERVICE

Accounts for funds to be used for payment debt service on the Tax Allocation Refunding Bonds issued in October 2002. Debt service is financed by property tax increments.

2002 PHDCFD #1 DEBT SERVICE

Accounts for funds for payment of the Pleasant Hill Downtown Community Facilities District #1 Refunding Special Tax Bonds Subordinated Series, issued in 2002.

PLEASANT HILL REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2005

	Pleasant Hill Commons Working Project	Pleasant Hill School Yard Working Project	Low and Moderate Income Housing	TARB Debt Service	2002 PHDCFD #1 Debt Service	Total Funds
ASSETS						
Cash and investments (Note 3)						
Available for operations	$1,110,233	$2,567,372	$1,481,936	$1,665,252		$6,824,793
Debt reserves held by trustees				666,087	$853,892	1,519,979
Accounts and other receivables						
Interest receivable	12,298	17,771	18,695	12,173		60,937
Prepaid deposits			235,000			235,000
Advance for deferred set-aside (Note 4)			987,485			987,485
Long term notes and loans receivable (Note 5A)			2,484,829			2,484,829
Land held for redevelopment (Note 5C)	9,556	86,000				95,556
Total Assets	$1,132,087	$2,671,143	$5,207,945	$2,343,512	$853,892	$12,208,579
LIABILITIES						
Accounts payable and accrued liabilities	$9,360	$9,966	$1,611			$20,937
Deposits		681				681
Deferred revenue			357,808			357,808
Due to City						
Advance for deferred set-aside (Note 4)				$987,485		987,485
Total Liabilities	9,360	10,647	359,419	987,485		1,366,911
FUND BALANCES						
Fund balance						
Reserved for:						
Debt service				1,356,027	$853,892	2,209,919
Long term notes and loans receivable, prepaids			2,362,022			2,362,022
Advance for deferred set-aside			987,485			987,485
Bridge housing operating subsidies			1,499,019			1,499,019
Land held for redevelopment	9,556	86,000				95,556
Unreserved:						
Designated						
Land purchases	1,113,171	2,574,496				3,687,667
Total Fund Balances	1,122,727	2,660,496	4,848,526	1,356,027	853,892	10,841,668
Total Liabilities and Fund Balances	$1,132,087	$2,671,143	$5,207,945	$2,343,512	$853,892	$12,208,579

See accompanying notes to financial statements

PLEASANT HILL REDEVELOPMENT AGENCY
Reconciliation of the
GOVERNMENTAL FUNDS -- BALANCE SHEET
with the
STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances reported on the governmental funds balance sheet	$10,841,668
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:	
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	357,808
LONG TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Long-term debt	(15,095,000)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	($3,895,524)

See accompanying notes to financial statements

PLEASANT HILL REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	Pleasant Hill Commons Working Project	Pleasant Hill School Yard Working Project	Low and Moderate Income Housing	TARB Debt Service	2002 PHDCFD #1 Debt Service	Total Funds
REVENUES						
Incremental property taxes		$743,319	$774,707	$2,355,511		$3,873,537
Rental		4,795				4,795
Charges for current services						
Developer fees	8,333					8,333
Use of money and property	70,805	55,653	112,803	66,305	$9,696	315,262
Other	747,364	81,199				828,563
Total Revenues	826,502	884,966	887,510	2,421,816	9,696	5,030,490
EXPENDITURES						
Current:						
Community development	1,253,555	238,104	441,427			1,933,086
Pass through agreements	105,308	155,036				260,344
Developer tax sharing reimbursements		294,489	101,867			396,356
Debt service						
Principal				375,000	115,000	490,000
Interest and fiscal charges				275,698	561,866	837,564
Total Expenditures	1,358,863	687,629	543,294	650,698	676,866	3,917,350
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(532,361)	197,337	344,216	1,771,118	(667,170)	1,113,140
OTHER FINANCING SOURCES (USES)						
Gain (Loss) on sale of property			(6,791)			(6,791)
Transfers in	1,474,000				672,543	2,146,543
Transfers (out)				(2,146,543)		(2,146,543)
Transfers (out) to the City	(1,500,000)					(1,500,000)
Total Other Financing Sources (Uses)	(26,000)		(6,791)	(2,146,543)	672,543	(1,506,791)
NET CHANGE IN FUND BALANCES	(558,361)	197,337	337,425	(375,425)	5,373	(393,651)
BEGINNING FUND BALANCES	1,681,088	2,463,159	4,511,101	1,731,452	848,519	11,235,319
ENDING FUND BALANCES	$1,122,727	$2,660,496	$4,848,526	$1,356,027	$853,892	$10,841,668

See accompanying notes to financial statements

PLEASANT HILL REDEVELOPMENT AGENCY
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	($393,651)
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
LONG TERM DEBT PROCEEDS AND PAYMENTS	
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.	
Repayment of debt principal is added back to fund balance	490,000
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Deferred revenue	(2,038)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$94,311

See accompanying notes to financial statements

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

A. Organization and Purpose

The Pleasant Hill Redevelopment Agency was created in 1973 under the provisions of the Community Redevelopment Law (California Health and Safety Code) to rehabilitate or redevelop areas determined to be blighted in designated Project Areas. The Pleasant Hill Commons Redevelopment Plan was adopted in May 1974 and the Schoolyard Redevelopment Plan was adopted in October 1978 to provide improved physical, social and economic environments in these Project Areas. The members of the City Council serve in a separate capacity as the governing board of the Agency, and the City Manager serves as the Executive Director.

The Agency is an integral part of the City of Pleasant Hill and, accordingly, the accompanying financial statements are included as a component of the general purpose financial statements prepared by the City. A component unit is a separate governmental unit, agency or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City's general purpose financial statements.

B. Revenues

The Agency's primary source of revenue is property taxes, referred to in the accompanying financial statements as "incremental property taxes". Property taxes allocated to the Agency are computed in the following manner:

a. The assessed valuation of all property in the Project Areas was determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment roll.

b. Property taxes related to any increase in assessed values after the adoption of a Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts receiving taxes from the project area.

The Agency has no power to levy and collect taxes, and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on notes, bonds or loans from the City. Any increased tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues available for this purpose. The Agency is also authorized to finance Redevelopment activities from other sources including assistance from the City, the State and federal governments, interest income and the issuance of Agency debt.

Under the "Teeter Plan", Contra Costa County assesses properties, and collects and distributes property taxes, remitting the full assessment regardless of the amounts received. Secured and unsecured property taxes become a lien January 1 and are collected in the following fiscal year.

Secured property tax is due in two installments, on November 1 and February 1. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on August 31 and becomes delinquent on September 1. Collection of delinquent accounts is the responsibility of the County, which retains all penalties. The County remits incremental property taxes to the Agency as follows: 55% in December, 40% in April and 5% in June.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings, on which taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the Agency in the fiscal year they are assessed provided they become available as defined above.

In order to mitigate financial impacts on other property tax supported entities caused by the Agency's adoption of the Redevelopment Projects, the Agency has agreements with several agencies under which it must pass through a portion of property tax increments to them. During fiscal 2004-05 the Agency paid $260,344 to these agencies.

C. Basis of Presentation

The Agency's Basic Component Unit Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) fees, grants and contributions that are restricted to meeting the operational needs of a particular program and (c) grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds.

D. Major Funds

GASB Statement 34 defines major funds and requires that the Agency's major funds be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total.

The Agency reported the following major governmental funds in the accompanying financial statements:

PLEASANT HILL COMMONS WORKING PROJECT – accounts for acquiring land and facilities for urban redevelopment within the Pleasant Hill Commons Project Area.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PLEASANT HILL SCHOOLYARD WORKING PROJECT – accounts for acquiring land and facilities for urban redevelopment within the Pleasant Hill Schoolyard Project Area.

LOW AND MODERATE INCOME HOUSING - accounts for the twenty percent housing set-aside from the tax increment proceeds.

TARB DEBT SERVICE - Accounts for funds to be used for payment of the Tax Allocation Refunding Bonds issued in October 2002. Debt service is financed by property tax increments.

PHDCFD #1 DEBT SERVICE - Accounts for funds for payment of the Pleasant Hill Downtown Community Facilities District #1 Special Tax Bonds issued in December 2002. Debt service and reimbursement to developer of the District is financed by property tax increments.

E. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred,* regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within forty-five days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property taxes, certain other intergovernmental revenues, certain charges for services, and interest revenue. Most charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed.

Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Agency may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The Agency's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. Budgets and Budgetary Accounting

The Agency adopts a biennial budget for all funds on or before June 30 of even-numbered years, for each of the ensuing two fiscal years. The operating budget takes the form of a two year budget, which is adopted in its entirety by the Agency Board by resolution.

The operating budget is subject to supplemental appropriations throughout its term in order to provide flexibility to meet changing needs and conditions. The Executive Director may approve supplemental appropriations in all funds, providing the total increase does not exceed 5% of the original total budget of all funds. Additional appropriations above the 5% level must be approved by the Agency.

The Executive Director is authorized to transfer budgeted amounts within and between individual departments and funds, provided that total appropriations are unaffected.

Budgeted amounts reported in the accompanying financial statements include budgeted amounts originally adopted, plus amendments. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

B. Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following year. Unencumbered operating appropriations lapse at year end and may be reappropriated in the following year.

NOTE 3 - CASH AND INVESTMENTS

The Agency's dependence on incremental property tax receipts, which are received semi-annually, requires it to maintain significant cash reserves to finance operations during the remainder of the year. The Agency pools cash from all sources and all funds except Cash with Fiscal Agents so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time. Investments are carried at fair value.

A. Policies

The Agency invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to maximize security, the Agency employs the Trust Department of a bank as the custodian of all Agency managed investments, regardless of their form.

NOTE 3 - CASH AND INVESTMENTS (Continued)

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Agency's cash on deposit or first trust deed mortgage notes with a value of 150% of the Agency's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the Agency's name and places the Agency ahead of general creditors of the institution pledging the collateral.

The Agency's investments are carried at fair value, as required by generally accepted accounting principles. The Agency adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year. In the Agency's case fair value equals fair market value, since all of the Agency's investments are readily marketable.

B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Agency debt instruments or Agency agreements.

Cash and investments	$6,824,793
Cash and investments with Trustees	1,519,979
Total Cash and investments	$8,344,772

C. Investments Authorized by the California Government Code and the Agency's Investment Policy

The Investment Policy of the City and Agency, and the California Government Code, allow the Agency to invest in the following, provided the credit ratings of the issuers are acceptable to the Agency; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the Agency's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligation	5 years	N/A	100%	No Limit
U.S. Agency Securities	5 years	N/A	100%	No Limit
Bankers Acceptances	180 days	N/A	40%	30%
Commercial Paper	270 days	A-1	25%	10%
Medium Term Notes	5 years	A-1	30%	No Limit
Repurchase Agreements	1 year	N/A	100%	No Limit
Time Deposits	N/A	N/A	100%	No Limit
Mutual Funds	N/A	Highest Category	20%	10%
Local Agency Investment Fund	N/A	N/A	$40 million per account	No Limit

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

The Agency must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the Agency fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Agency resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
Federal Securities		
Federal Housing Administration debentures		
U.S. Government Sponsored Enterprise		
Unsecured Certificates of Deposit	30 days	A-1
FDIC insured deposits		
Commercial Paper	270 days	A-1
Money Market Funds		Aam-G
State Obligation:		
General Obligation		A
General Short-term Obligation		A
Special Revenue Bonds		AA
Pre-refunded Municipal Obligation		AAA
Repurchase Agreement		A
Investment Agreement		AA
Local Agency Investment Fund		

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Agency generally manages its interest rate risk by holding investments to maturity.

NOTE 3 - CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity or earliest call date:

	Market Value	Maturity Date
Investments:		
Federal Agency Issues:		
Federal National Mortgage Association	$407,704	May 1, 2012 (A)
Guaranteed Investment Contracts	651,563	August 27, 2021
Money Market Fund	868,416	
City of Pleasant Hill cash and investments pool	6,417,089	
Total Investments	$8,344,772	

(A) FNMA is mortgaged backed security and is subject to prepayment prior to maturity.

The Agency participates in the City of Pleasant Hill Cash and Investments pool, detail of which are presented in the City's Comprehensive Annual Financial Report. The pool consists principally of cash in banks and the Local Agency Investment Fund.

Money market funds are available for withdrawal on demand and at June 30, 2005.

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The actual ratings as of June 20, 2005 for all Guaranteed Investment Contracts and Money Market Funds are AAA as provided by Standard and Poor's investment rating system. The Local Agency Investment Fund and Federal National Mortgage Association pool were not rated as June 30, 2005.

Significant investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds, are set forth below:

Reporting Unit	Issuer	Investment Type	Reported Amount
Entity-wide:			
	AIG Matched Funding Corp.	Guaranteed Investment Contract	$651,563
Major Funds:			
	Pleasant Hill Redevelopment TARB		
	AIG Matched Funding Corporation	Guaranteed Investment Contract	651,563
	Pleasant Hill Redevelopment Capital Projects		
	Federal National Mortgage Association	Federal agency securities	407,704

NOTE 4 - INTERFUND ADVANCES

A. Advance For Deferred Set-Aside

Under Section 33334.2 of the California Health and Safety Code, redevelopment agencies in California are generally required, unless certain annual findings are made, to set aside 20% of all tax increment received annually (the "Annual Set-Aside") in a Low and Moderate Income Housing Fund to be used within the jurisdiction of the Agency to increase and improve the supply of low and moderate income housing.

However, as provided in Section 33334.6, for project areas (or portions thereof) established prior to January 1, 1977, a redevelopment agency may defer its low and moderate income housing deposit requirements in any fiscal year that the agency finds that the deferral is necessary to make payments on "existing obligations" and, for fiscal years through 1995-96 only, to fund the orderly and timely completion of "public and private projects, programs or activities." Existing obligations include any loan, advance or indebtedness incurred by a redevelopment agency to finance or refinance, any redevelopment project existing on January 1, 1986 and contained on the statement of existing obligations of the Agency.

For fiscal years 1985-86 through 1991-92, the Agency deferred the annual set-aside on the original Commons Project Area pursuant to Section 33670. At June 30, 1992, the total amount deferred was $1,161,749.

Beginning in fiscal year 1992-93, the Agency has set aside the required 20% of its gross tax increment revenues into a separate low and moderate income housing fund for all project areas.

As required, the Agency has adopted a plan to eliminate the deferred amount. Beginning in fiscal 2002-2003 the Agency budgeted and has made annual repayments.

In fiscal year 2004-2005, the Agency repaid $58,088 of the advance, leaving an outstanding balance of $987,485.

NOTE 5 - REDEVELOPMENT ACTIVITIES

A. Owner-Occupied Housing Rehabilitation Loans

The Agency administers a housing rehabilitation loan program under which very low and low-income homeowners are eligible to receive loans up to $60,000 to be used to construct improvements on their homes. These loans bear three percent simple interest, have a fifteen year term and are secured by deeds of trust. Payments on the loans may be made monthly or may be deferred and paid at the end of the term or transfer of ownership. Activity for these loans is presented below for the year ended June 30, 2005:

	Balances of Loans with		
	Payments Deferred	Payments Made Monthly	Total
Beginning Balance	$1,411,970	$128,483	$1,540,453
New Loans Made	171,400		171,400
Loan Collections	(277,874)	(25,674)	(303,548)
Accrued Deferred Interest	(28,276)		(28,276)
Ending Balance	$1,277,220	$102,809	$1,380,029

B. Grayson Creek Apartments

In fulfillment of its obligation to replace low and moderate-income housing destroyed as part of the Pleasant Hill Downtown Project, the Agency entered into an Agreement with Bridge Housing Corporation, a non-profit housing developer, to provide $150,000 annually for the construction and operation of a 71 unit low and moderate-income apartment project. In FY 1999-2000, the Agency and Bridge Housing Corporation amended their Agreement to allow for an additional $50,000 to be provided for demolition costs. In FY 2001-2002 another amendment assigned the loan Agreement to Bridge Grayson Creek Associates and increased the remaining annual installments from $150,000 to $235,000, in the form of grants. The amendment decreased the loan amount from $4,500,000 to $1,005,000, and decreased the number of the units from 71 to 70. The payments commenced in July 1998 and will continue for 34 years or the life of the Pleasant Hill Commons Project Area, rather than 30 years as was in the previous agreement, whichever is less. Payments are made from the Agency's low and moderate-income Housing Fund. As of 10/14/03, construction of the apartment project was completed and the apartments have since been occupied. At June 30, 2005, the outstanding balance of the receivable, including accrued interest, was $1,104,800.

In addition, the Agency has agreed to provide annual operating grants of $235,000 to subsidize the operations of the complex from fiscal year 2003-2004 through fiscal year 2031-2032.

C. Land Held for Redevelopment

The Redevelopment Agency purchases parcels of land in order to develop or redevelop blighted properties within the redevelopment areas. Such land parcels are carried at the lower of cost, net realizable value or agreed-upon sales price if a disposition and development agreement has been made with a developer.

NOTE 5 - REDEVELOPMENT ACTIVITIES (Continued)

D. *Pleasant Hill Downtown Project*

The Disposition and Development Agreement (DDA) between the Agency and the Pleasant Hill Downtown Project Developer ("RVIP") provides for Agency reimbursement of certain Developer costs, to be paid from net property tax increment revenues generated by the project. Following completion of the first phase of the Downtown Project in 2001, the Agency commenced its annual reimbursement payments in 2002. For fiscal 2004-2005, the Agency paid $147,037 toward this obligation.

Annual tax sharing developer reimbursements are limited to amounts actually received by the Agency, after deducting low and moderate income housing set asides, amounts owed under pass-through agreements, and debt service.

Reimbursement for each phase terminates thirty years from the date of the Certificate of Completion for that phase or when total reimbursements for all three phases equals $36,630,000, whichever is sooner.

E. *Lodgeworks - Summerfield Suites Hotel Project*

In connection with the Pleasant Hill Downtown Project, the Agency and a Hotel Developer ("LodgeWorks") entered into a DDA under which the Developer purchased Agency-owned land for $2,200,000 and constructed a 142-suite hotel and parking lot. Per the terms of the DDA, the City will rebate to the Developer the first $650,000 of transient occupancy tax (TOT) revenues generated by the hotel and fifty percent of subsequently received TOT revenues, for an additional $500,000. The Hotel Project was completed in 2002. To date, the City has rebated $681,634 in TOT revenues to the Developer, $251,459 of it in fiscal 2004-2005.

F. *Gallery Walk Townhomes*

The Agency has an Agreement with Greystone Homes under which the Developer constructed 134 townhomes on a site known as the Cleaveland Road Triangle, comprised of two Agency-owned parcels, certain parcels owned by the Developer, and parcels acquired from third parties. Twelve of the townhomes were required to be sold at affordable housing costs to moderate-income households. As of 06/30/03 the project was complete and all twelve units had been sold to moderate-income households through a lottery conducted by the Agency. The Agency is rebating net property tax increment revenues to the Developer as required by the Agreement. In FY 2004-2005 the Agency paid $396,356 toward this obligation.

G. *Crossroads Project*

The Agency and City have an Owner Participation Agreement with a Developer under which the Developer is to redevelop the former Montgomery Ward parcel of the Contra Costa Shopping Center Target Area. The Developer will substantially remodel and reduce the size of an existing building for use by a major retail store and develop new shops/restaurants along Monument Blvd. The Developer has also agreed to pay sixty percent of the costs of installing a new water main on Buskirk Avenue. Financing of the estimated $27 million in project costs will be provided or arranged for by the Developer.

NOTE 5 - REDEVELOPMENT ACTIVITIES (Continued)

The Agency is obligated to pay for certain roadway improvements and forty percent of the cost of a new water main on Buskirk Avenue. These costs approximate $2.8 million. The Agency has also agreed to a tax sharing arrangement under which it will reimburse $200,000 annually to the Developer. The reimbursement is payable solely from property tax increment revenues generated by the project and expires in 25 years. If the annual property tax revenues generated are less than the annual reimbursement, the Agency has agreed to defer the deficit amount until future years and add interest at prime plus 1%. Accumulated deficit amounts and interest are repayable from future property tax increment revenues generated by the project.

Annual tax sharing developer reimbursements are limited to amounts actually received by Agency, after deducting low and moderate income housing set-asides, payments to taxing agencies pursuant to Health and Safety Code Sections 33607.5 and 33676, the allocable portion of Net Property Tax Increment Revenue, which the State Legislature may mandate that the Agency pay from time to time in the future including any payments which the Agency may be required to pay to the Education Revenue Augmentation Fund, and any incurred, outstanding or future refinancing of bonded indebtedness.

H. Mortgage Revenue Bonds Without Agency Commitment

In prior years, the Agency assisted low and moderate income homebuyers by sponsoring mortgage revenue bonds issued by developers. These bond issues provide cash to finance mortgages, but are solely repayable out of mortgage payments. The Agency has no direct or contingent liability or moral obligation for the payment of these bonds and has not recorded them as Agency debt. As of June 30, 2005, there was one Agency mortgage revenue bond issue outstanding, in the aggregate principal amount of $10,355,000.

NOTE 6 - LONG TERM DEBT

A. Changes to Long Term Debt

	Balance June 30, 2004	Retirements	Balance June 30, 2005	Current Portion
2002 Tax Allocation Refunding Bonds, 2.0-4.3%, due 9/1/21	$8,470,000	$375,000	$8,095,000	$380,000
Total	$8,470,000	$375,000	$8,095,000	$380,000

B. Composition

On September 18, 2002, the Agency issued $8,860,000 in 2002 Tax Allocation Refunding Bonds, proceeds of which were used to retire the 1991 Tax Allocation Refunding Bonds. Interest is payable on September 1 and March 1 of each year through September 1, 2022. Principal is payable each September 1 commencing September 1, 2003 through 2021.

NOTE 6 - LONG TERM DEBT (Continued)

The 2002 Bonds maturing on or after September 1, 2010, are subject to redemption at the option of the Agency starting September 1, 2009, and semiannually thereafter at par plus accrued interest, plus a 2% premium. The premium decreases one percent annually until September 1, 2011, at which time the 2002 Bonds may be redeemed at par. The 2002 Bonds maturing September 1, 2021, are subject to mandatory redemption starting September 1, 2003, through 2021 at par plus accrued interest.

The 2002 Bonds are secured by a pledge of incremental property tax revenues levied on Pleasant Hill Commons Project property, money held in the reserve account, and investment income earned on moneys held by the trustee.

Terms of the 2002 Bonds require reserves to be maintained which are equal to the maximum annual debt service. As of June 30, 2005 trustee had invested and held $519,976 in the First American Treasury Obligation Class D Corporate Treasury Money Market Fund.

The California Government Code requires these funds to be invested in accordance with any applicable Agency ordinance resolution or bond indenture, unless there are specific State statutes governing their investment. All these funds have been invested only as permitted by either the above Code or applicable Agency ordinance.

C. *Debt Service Requirements*

Annual debt service requirements are shown below:

For the Year Ending June 30	Principal	Interest	Totals
2006	$380,000	$264,528	$644,528
2007	390,000	256,828	646,828
2008	395,000	248,978	643,978
2009	405,000	240,472	645,472
2010	410,000	230,791	640,791
2011-2015	2,245,000	965,029	3,210,029
2016-2020	2,650,000	534,245	3,184,245
2021-2025	1,220,000	52,483	1,272,483
Total	$8,095,000	$2,793,354	$10,888,354

NOTE 7 - DOWNTOWN COMMUNITY FACILITIES DISTRICT DEBT

A. *Special Assessment Debt without Agency Commitment*

As discussed in Note 5D, the Agency has an agreement with a developer which provided for the construction of the Pleasant Hill Downtown Project. In 1998, the developer, as sole property owner of the project site, voted to form the Pleasant Hill Downtown Community Facilities District No. 1 for the expressed purpose of issuing long-term tax exempt debt to provide the financing of infrastructure improvements within in the District. Concurrently, the Developer also approved the establishment of a Special Tax to be levied on the project site each year in amounts which will be sufficient to repay the principal and interest on the District's long-term debt.

NOTE 7 - DOWNTOWN COMMUNITY FACILITIES DISTRICT DEBT (Continued)

To assist the developer in financing the infrastructure costs of the project, the City assisted in the formation of the District and in the issuance of Special Tax Bonds, Series 1998A ($7,365,000 at June 30, 2005) and Special Tax Bonds, Subordinated Series 2002. The City and Agency have no legal or moral liability with respect to the payment of the above debt, which is secured and serviced only by assessments on the properties and unexpended debt proceeds in the District. Neither the City nor the Agency has pledged their revenues or assets for the repayment of the District debt and, as required under generally accepted accounting principals, the above debt has been excluded from the City's and Agency's financial statements.

B. Special Assessment Debt with Agency Commitment

On November 20, 2002, the City assisted the District in issuing $7,290,000 of Refunding Special Tax Bonds, Subordinated Series 2002, which refinanced and retired prior debt. The Bonds bear interest at 2.4% to 6.0%, which is due semiannually commencing March 1, 2003. Principal is due annually commencing September 1, 2003. During fiscal year 2004-2005, the Agency repaid $115,000 in principal.

These 2002 Bonds are also repayable from Special Tax levies similar in nature to those discussed above. Concurrently with the 2002 Bonds issuance, the Agency, City and Fiscal Agent for the 2002 Bonds entered into a pledge agreement under which the Agency will remit certain tax increment payments due to the developer, as discussed in Note 5D, directly to the Fiscal Agent for use in paying debt service on the 2002 Bonds on behalf of the developer. These payments to the trustee count toward the $36,630,000 maximum developer reimbursement. Agency staff has stated that current tax increment revenues subject to the pledge agreement are sufficient to pay debt service on the 2002 Bonds. Accordingly, such debt is considered Special Assessment Debt with Agency Commitment and has been included in the Agency's financial statements.

Annual debt service requirements are shown below:

Year Ending June 30	Total Principal	Total Interest	Total
2006	$120,000	$393,902	$513,902
2007	120,000	389,792	509,792
2008	125,000	384,977	509,977
2009	130,000	379,492	509,492
2010	135,000	373,527	508,527
2011-2015	790,000	1,757,205	2,547,205
2016-2020	1,030,000	1,505,701	2,535,701
2021-2025	1,365,000	1,162,430	2,527,430
2026-2030	1,815,000	695,351	2,510,351
2031-2035	1,370,000	126,600	1,496,600
Total	$7,000,000	$7,168,977	$14,168,977

NOTE 8 – NET ASSETS AND FUND BALANCES

A. Net Assets

Net Assets is the excess of all the Agency's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets which is not restricted to use.

As of June 30, 2005 the Agency has liabilities in excess of assets amounting to $3,895,524, which is a result of recording the 2002 Bonds discussed in Note 7. The Bonds were issued to finance infrastructure and improvements to the Pleasant Hill Downtown Project. These improvements are to be maintained by the developer and are recorded on the Developer's financial statements. The Bonds are repayable from, and the net liability deficit will be eliminated by, receipt of tax increment revenues, which will be recorded each year when received through the County.

B. Fund Equity Reserves and Designations

Fund equity consists of reserved and unreserved amounts. Reserved fund equity represents that portion of a fund balance or retained earnings, which has been appropriated for expenditure or is legally segregated for specific future use. The remaining portion is unreserved.

Fund balance reserves are described below:

Reserved for ***Debt Service*** represents amounts held in debt service funds, which must be used in compliance with the related indenture covenants.

Reserved for ***Notes Receivable, Housing Loans Receivable, Advances for Deferred Set-Aside and Land Held for Redevelopment*** represents the segregation of fund balances for non-current assets not available for expenditure.

Reserved for ***Bridge Housing Operating Subsidies*** pledged through July 2034 for the Grayson Creek Apartments Project. Such pledge was made in the Amended and Restated Loan and Grant Agreement between the Pleasant Hill Redevelopment Agency and Bridge Creek Associates, dated 9/10/01. This Project provides for the construction and operation of 71 units of affordable multi-family rental housing to help satisfy the Agency's replacement housing obligation, and construction was completed in the spring of 2003.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource use in a future period. Such plans or intentions are subject to change and may not result in expenditures.

NOTE 9 - RISK MANAGEMENT

A. Municipal Pooling Authority

The Agency, through the City, is a member of the Municipal Pooling Authority (Formerly known as Contra Costa County Municipal Risk Management Insurance Authority or CCCMRMIA), a joint powers agency that provides coverage against the following types of loss risks:

Type of Coverage (Deductible)	CoverageLimits
Liability ($25,000)	$15,000,000
Auto - Physical damage ($3,000 for police vehicles, $2,000 for all others)	$250,000
Workers' Compensation (no deductible)	Statutory
All Risk Fire & Property Including Flood ($5,000)	$1,000,000,000
Boiler & Machinery ($5,000)	$10,000,000

The Municipal Pooling Authority is governed by a Board consisting of representatives from member municipalities. The Board controls the operations of the Municipal Pooling Authority, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's deposits with the Municipal Pooling Authority are in accordance with formulas established by the Municipal Pooling Authority. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Financial statements may be obtained from Municipal Pooling Authority, 1911 San Miguel Drive, Suite 200, Walnut Creek, CA 94596.

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SUPPLEMENTAL INFORMATION

PLEASANT HILL REDEVELOPMENT AGENCY
PLEASANT HILL COMMONS WORKING PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Charges for services			
Developer fees		$8,333	$8,333
Use of money and property	$22,620	70,805	48,185
Other	350	747,364	747,014
Total Revenues	22,970	826,502	803,532
EXPENDITURES			
Current			
Community development	1,740,624	1,253,555	487,069
Pass through agreements	95,723	105,308	(9,585)
Total Expenditures	1,836,347	1,358,863	477,484
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,813,377)	(532,361)	1,281,016
OTHER FINANCING SOURCES (USES)			
Transfers in	1,474,000	1,474,000	
Transfers (out) to the City	(1,500,000)	(1,500,000)	
Total Other Financing Sources (Uses)	(26,000)	(26,000)	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	($1,839,377)	(558,361)	$1,281,016
BEGINNING FUND BALANCE		1,681,088	
ENDING FUND BALANCE		$1,122,727	

PLEASANT HILL REDEVELOPMENT AGENCY
PLEASANT HILL SCHOOLYARD WORKING PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Property taxes	$685,243	$743,319	$58,076
Rental	9,324	4,795	(4,529)
Use of money and property	41,873	55,653	13,780
Other		81,199	81,199
Total Revenues	736,440	884,966	148,526
EXPENDITURES			
Current			
Community development	348,030	238,104	109,926
Pass through agreements	127,361	155,036	(27,675)
Developer tax sharing reimbursements	262,177	294,489	(32,312)
Total Expenditures	737,568	687,629	49,939
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	($1,128)	197,337	$198,465
BEGINNING FUND BALANCE		2,463,159	
ENDING FUND BALANCE		$2,660,496	

PLEASANT HILL REDEVELOPMENT AGENCY
LOW AND MODERATE INCOME HOUSING FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Property taxes	$750,543	$774,707	$24,164
Charges for services			
Use of money and property	88,043	112,803	24,760
Other	14,068		(14,068)
Total Revenues	852,654	887,510	34,856
EXPENDITURES			
Current			
Community development	450,388	441,427	8,961
Developer tax sharing reimbursements	68,295	101,867	(33,572)
Total Expenditures	518,683	543,294	(24,611)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	333,971	344,216	10,245
OTHER FINANCING SOURCES (USES)			
Gain (Loss) on sale of property		(6,791)	(6,791)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	$333,971	337,425	$3,454
BEGINNING FUND BALANCE		4,511,101	
ENDING FUND BALANCE		$4,848,526	

PLEASANT HILL REDEVELOPMENT AGENCY
TARB DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Incremental property taxes	$2,316,929	$2,355,511	$38,582
Use of money and property	36,597	66,305	29,708
Total Revenues	2,353,526	2,421,816	68,290
EXPENDITURES			
Debt Service			
Principal	375,000	375,000	
Interest and fiscal charges	275,384	275,698	(314)
Total Expenditures	650,384	650,698	(314)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,703,142	1,771,118	67,976
OTHER FINANCING SOURCES (USES)			
Transfers (out)	(2,146,543)	(2,146,543)	
Total Other Financing Sources (Uses)	(2,146,543)	(2,146,543)	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	($443,401)	(375,425)	$67,976
BEGINNING FUND BALANCE		1,731,452	
ENDING FUND BALANCE		$1,356,027	

PLEASANT HILL REDEVELOPMENT AGENCY
2002 PHDCFD#1 DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Use of money and property	$12,250	$9,696	($2,554)
Total Revenues	12,250	9,696	(2,554)
EXPENDITURES			
Debt Service			
Principal	120,000	115,000	5,000
Interest and fiscal charges	591,019	561,866	29,153
Total Expenditures	711,019	676,866	34,153
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(698,769)	(667,170)	31,599
OTHER FINANCING SOURCES (USES)			
Transfers In	672,543	672,543	
Total Other Financing Sources (Uses)	672,543	672,543	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	($26,226)	5,373	$31,599
BEGINNING FUND BALANCE		848,519	
ENDING FUND BALANCE		$853,892	

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Governing Board of the
Pleasant Hill Redevelopment Agency, California

We have audited the basic financial statements of City of Pleasant Hill as of and for the year ended June 30, 2005, and have issued our report thereon dated October 11, 2005. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our audit included tests of compliance with provisions of the Guidelines for Compliance Audits of California Redevelopment Agencies. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standard.*

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the above parties.

Maze + Associates

October 11, 2005

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